

US government investigates allegations Fiat-Chrysler falsified sales figures

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The US Securities and Exchange Commission (SEC) and the Federal Bureau of Investigation (FBI) are looking into allegations that Fiat-Chrysler (FCA) has been involved in a scheme to inflate its sales figures, evidently with an eye to boosting its stock value.

In a statement Monday the automaker said it was “cooperating” with the investigations. The probe apparently stems from a lawsuit filed by two FCA dealerships owned by Illinois-based Napleton Automotive Group. They filed a racketeering lawsuit against FCA in January claiming they were offered money to artificially inflate sales results. The complaint was amended in March to include other Napleton owned dealerships and to amend and add other details to the court record.

Wall Street is placing tremendous pressure on all the auto companies to boost their stock values. The current scandal takes place under conditions where FCA has been consistently reporting higher year over year sales figures, including a 6.5 percent sales rise for the first half of 2016. It has reported a streak of 75 straight months of sales gains. Despite this, the company’s stock value has declined since the start of 2016. Its overall profit fell in 2015 to \$415 million.

If the company misrepresented sales, it was likely aimed at enticing investors to purchase its stock. If that is the case the SEC could impose a fine for securities fraud.

The lawsuit filed by the dealerships alleged that FCA benefited from the deception, “As it results in the inflation of the number of year-on-year sales which, in turn, create the appearance that FCA’s performance is better than, in reality, it actually is.”

The dealer lawsuit claims that FCA in North America “knowingly endorses and encourages the false reporting of motor vehicle sales by directly rewarding

its district managers and business center directors with monetary and quarterly bonuses which are directly related to reported vehicle sales numbers.”

According to the lawsuit, dealer Edward Napleton was asked to falsely report sales of 40 vehicles in exchange for receiving \$20,000 in incentive payments from FCA. The money would have been disguised as cooperative advertising support. Napleton says he rejected the deal.

The lawsuit also alleges that FCA paid other dealers to alter vehicle sales reports to show sales in a particular month and then later revise the reports. In a previous complaint a Maserati dealership claimed in 2015 that Fiat Chrysler was giving payouts to dealers to pad sales numbers.

In March FCA asked the judge overseeing the case to dismiss the lawsuit. It claims the case is merely the product of disgruntled dealers. The judge has not yet ruled on Fiat Chrysler’s motion. A judge in Brooklyn, meanwhile, is deciding whether to merge two other cases.

However, starting in March Fiat-Chrysler stopped touting its year-over-year sales gains in its monthly press releases. In a statement released Monday, FCA stated, “In its annual and quarterly financial statement, FCA records revenues based on shipments to dealers and customers and not on reported unit sales to end customers.”

There are currently two separate investigations underway. The SEC is investigating fraud and the FBI has launched a criminal investigation. It is not known whether the federal scrutiny of Fiat Chrysler is the product of the lawsuits or if there is an inside whistleblower.

As part of its probe the FBI has visited the FCA headquarters in Auburn Hills, Michigan, as well as

business centers in various cities. It has also visited the homes of some FCA employees who might have information about the alleged scheme to inflate vehicle sales reports.

If there turns out to be substance to the charges against Fiat Chrysler for manipulating sales figures it could have major financial and legal repercussions for the company. Investors would likely dump its stock in anticipation of the SEC imposing potentially huge fines. It comes with the company already struggling in the shadow of its larger and more profitable Detroit-based competitors, Ford and General Motors.

Some analysts are projecting that 2016 auto sales will level off after experiencing years of strong growth. The biggest hit will be to sales of cars to individual consumers, generally the most profitable sector. General Motors sales fell 1.6 percent in June while Toyota's sales were down 6.2 percent. Ford sales rose 6.4 percent.

The investigation into doctored sales reports comes as Fiat Chrysler is in the midst of a reorganization of its North American operations, a move that could put a crimp on its cash flow. As part of the changes the company eliminated a shift at its Sterling Heights Assembly Plant (SHAP) north of Detroit on July 5, with a cost of about 1,400 jobs. They were the first permanent layoffs since the company emerged from bankruptcy in 2009.

The layoffs flow from the company's decision to end the production of smaller vehicles in the United States in order to focus on more profitable and better selling trucks and SUVs. SHAP built the Chrysler 200, a midsize sedan. The Belvidere, Illinois, Assembly Plant builds the Dodge Dart, a small car that the company also plans to drop from its vehicle lineup.

Both plants are being converted to assemble larger size vehicles. SHAP will build a redesigned version of the Dodge Ram truck, currently built at the nearby Warren Truck plant. The Belvidere plant will be retooled to assemble the Jeep Cherokee, currently made in Toledo, Ohio.

While FCA CEO Sergio Marchionne claims that there will be no net job loss due to the changes, the layoffs are already causing disruption and concern for employees at SHAP, who only worked three out of the last six months. Workers are being reassigned to other plants piecemeal, often without any regard to plant

wide seniority.

One SHAP worker with five years' experience told the *World Socialist Web Site Autoworker Newsletter* that workers with up to 15 years seniority had been displaced due to the recent layoff. "The layoffs were all based on the department you are in," he said. "If the morning shift was full in your department then you were fired, it didn't matter if you had more experience. A lot of us were also put on crappy jobs since the company got rid of the second shift."

The scandal over the possible manipulation of sales by FCA follows other recent revelations of criminal wrongdoing by the major automakers, including the falsification of auto emissions test results by Volkswagen and the covering up of a deadly ignition switch defect by General Motors that resulted in up to several hundred fatalities.

In June, actor Anton Yelchin died in an accident involving his FCA Jeep Grand Cherokee. It rolled backward and pinned him against a brick mailbox pillar and a security fence. The Grand Cherokee is the subject of a recall for a defect involving a gear shift lever that can be easily left in the wrong gear, such as neutral, allowing the car to roll. The company had dragged its feet on the recall, which currently involves some 1.1 million vehicles.



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